

Franchise Tax Board**REVISED ANALYSIS**Author: Assm. Rev. & Tax Comm. Analyst: Jeff Garnier Bill Number: AB 1208Related Bills: See Legislative History Telephone: 845-5322 Amend. Date: May 28, 1999Attorney: Patrick Kusiak Sponsor: _____**SUBJECT:** Conformity Act of 1999

XX REVENUE ESTIMATE CHANGED.
____ FURTHER CONCERNS IDENTIFIED.
XX REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 28, 1999 STILL APPLIES.
____ OTHER - See comments below.

SUMMARY OF BILL

The Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), in general, conform to the Internal Revenue Code (IRC) either by incorporating the IRC by reference as of a "specified date" or by stand alone language which mirrors the federal provision. California law is conformed to the IRC as of January 1, 1998, unless a specific provision provides otherwise. This bill would change the specified date from January 1, 1998, to January 1, 1999, for taxable and income years beginning on or after January 1, 1999. Changing the specified date automatically conforms to all changes from January 1, 1998, through December 31, 1998, to IRC sections that have been previously incorporated by reference. Thus, California law would conform to numerous changes made to federal income tax law by the IRS Restructuring and Reform Act of 1998 and certain other federal acts enacted during 1998.

This bill also would make numerous changes to specifically not conform or modify certain items in the IRC. Additionally, numerous technical changes regarding cross references and the deletion of unnecessary language that was used to conform to federal law changes subsequent to January 1, 1998, and prior to January 1, 1999, are being made by this bill.

SUMMARY OF REVISION

The revenue for item 12, self-employed health insurance deduction at 60%, was incorrectly reported on the May 28, 1999, analysis for the 2001-2002 fiscal year. The May 28, 1999, analysis reported the revenue loss at \$25 million, the correct revenue loss for the 2001-2002 fiscal year is \$21 million. A revised revenue estimate table follows:

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> </u> PENDING

Legislative Director

Date

Tax Revenue Estimate

Assembly Bill 1208 as amended on May 28, 1999		Personal Income Tax			Bank & Corporation Tax		
		(in millions)			(in millions)		
	Description	1999-0	2000-1	2001-2	1999-0	2000-1	2001-2
1	Exclusion of value of meals to employee	(\$1)	(\$1)	(\$1)			
2	Employer Deductions for Vacation and Severance Pay	a/ Minor Gain	Minor Gain	Minor Gain	\$2	\$3	\$3
3	Certain Trade Receivables Ineligible for Mark-To-Market Treatment	Minor Gain	Minor Gain	Minor Gain	\$12	\$18	\$18
4	Exclusion-Min. Req. Distributions from AGI for Roth IRA Conversions	b/ -	-	-			
5	Farm Production Flexibility Contract Payments	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant
6	Certain Deductible Liquidating Distributions of RICs & REITs	c/			\$40	\$5	-
7	Tax Treatment of Cash Options for Qualified Prizes	Minor Loss	Minor Loss	Minor Loss			
8	Exclusion from Income for Employer-Provided Transportation Benefits	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant
9	Payments Received Pursuant to the Ricky Ray Hemophilia Relief Fund Act	Insignificant	Insignificant	Insignificant			
10	Waiver of Estimate Tax Penalty	No Impact	No Impact	No Impact	No Impact	No Impact	No Impact
11	1998 Federal Technical Changes	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant
12	Self-Employed Health Insurance Deduction at 60%	(\$21)	(\$19)	(\$21)	-	-	-
13	B & C Section 179 Expensing Allowance at \$17,000	-	-	-	(\$32)	(\$23)	(\$17)
TOTALS		(\$22)	(\$20)	(\$22)	\$22	\$3	\$4

Minor = Loss or gain of less than \$500,000

a/ Baseline revenue gains are projected to be \$65 million for 1999-0 and \$3 million thereafter.

b/ Baseline revenue gains are projected to be \$84 million for 2004-5, \$101 million for 2005-6, and \$99 million for 2006-7. Conformity gains are estimated to be \$1 million annually beginning with the fiscal year 2004-5

c/ Baseline revenue gains are projected to be \$15 million annually beginning in 1998-9,